

## Message Text

CONFIDENTIAL

PAGE 01 CANBER 02410 180138Z

20

ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-02 DODE-00 PA-01 USIA-06 PRS-01 INT-05 AGR-05

GSA-01 /095 W

----- 064968

R 180101Z APR 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 5512

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

C O N F I D E N T I A L CANBERRA 2410

E.O. 11652: GDS

TAGS: EINV, EMIN, EALR, EGEN, AS

SUBJ: FINANCIAL CRISIS AND POSSIBLE SHUTDOWN -

FREEPORT GREENVALE NICKLE REFINERY PROJECT

1. BEGIN SUMMARY: AMBASSADOR ADVISED BY JACK HALL, EXECUTIVE VICE PRESIDENT, FREEPORT MINERALS, NEW YORK, THAT \$275 MILLION NICKEL REFINING JOINT VENTURE NEAR TOWNSVILLE, QUEENSLAND IN SERIOUS FINANCIAL DIFFICULTY AND MAY CLOSE DOWN WITHIN NEXT FEW WEEKS. REFINERY IS 50-50 JOINT VENTURE OF FREEPORT AND AUSTRALIAN FIRM METALS EXPLORATION CORP. MAJOR LENDERS TO PROJECT INCLUDE EXIM, CHASE-MANHATTAN AND LONG LIST AUSTRALIAN AND EUROPEAN FINANCIAL INSTITUTIONS. \$70 MILLION OF LOANS GUARANTEED BY QUEENSLAND STATE GOVT. CENTRAL PROBLEM IS MAJOR INCREASES IN CONSTRUCTION AND START-UP AND FUEL COSTS REQUIRING INJECTION ADDITIONAL WORKING CAPITAL BY FREEPORT AND AUSTRALIAN PARTNER AND PARTNER'S INABILITY  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CANBER 02410 180138Z

RAISE ITS SHARE OF NEW FUNDS. SHUTDOWN WOULD CREATE

LOCAL ECONOMIC PROBLEM IN QUEENSLAND AND HAVE WIDE REPERCUSSIONS AMONG LENDERS. FREEPORT AND EMBASSY BOTH CONCERNED TO MINIMIZE ADVERSE PUBLIC AND GOA REACTIONS TO FREEPORT AND AMERICAN MULTINATIONALS COLLECTIVELY IN EVENT SHUTDOWN OCCURS. END SUMMARY.

2. HALL MADE SPECIAL VISIT CANBERRA FROM NEW YORK TO APPRISE AMBASSADOR, WHO IS LONG-STANDING FRIEND, OF GROWING POSSIBILITY OF SHUTDOWN AND DISCUSS POSSIBLE REPERCUSSIONS. REFINERY STARTED UP OPERATIONS LATE 1974. IMMEDIATE PROBLEM IS THAT FREEPORT'S AUSTRALIAN PARTNER, METALS EXPLORATION CORP., HAS FAILED DESPITE DESPERATE SEARCH OVER PAST MONTHS IN ATTEMPT RAISE ITS SHARE (MINIMUM \$US5 MILLION) OF ADDITIONAL WORKING CAPITAL REQUIRED TO CARRY PROJECT THROUGH UNEXPECTEDLY LONG START-UP PERIOD UNDER ADVERSE COST AND MARKET CONDITIONS. EVEN \$5 MILLION FIGURE ASSUMES PARTNERS WILL ALSO SUCCEED IN PERSUADING LENDERS TO DEFER LARGE INTEREST PAYMENTS OVER COMING YEARS.

3. AMBASSADOR AND E/C COUNSELOR CANBASSED WITH HALL ALL POSSIBILITIES FOR SOLUTION. METALS EXPLORATION HAS FOR MONTHS BEEN UNSUCCESSFULLY PRESSING AUSTRALIAN PRIVATE AND OFFICIAL SOURCES FOR ADDITIONAL LOAN. FREEPORT PREPARED FURNISH ITS SHARE AS PARTNER BUT HAS NOT SERIOUSLY CONSIDERED POSSIBILITY OF MAKING UP FOR AUST. PARTNER'S DEFICIENCY SINCE RESULTING ASSUMPTION MAJORITY POSITION WOULD CONSTITUTE TAKEOVER CONTRARY TO CURRENT GOA POLICY. FREEPORT ALSO RELUCTANT IN ITS OWN NAME APPROACH AUSTRALIAN GOVERNMENT OR INSTITUTIONS BELIEVING IT MUST LEAVE ALL SUCH CONTACTS TO AUSTRALIAN PARTNER.

4. IN VIEW FREEPORT'S LARGE DIRECT FINANCIAL STAKE, AND POSSIBLE WIDE REPERCUSSIONS OF ITS INVOLVEMENT IN SPECTACULAR FAILURE, WE ENCOURAGED HALL TO CONSIDER APPROACHING GOA DIRECTLY AT HIGH LEVEL, SUCH AS TREASURER CAIRNS. WE ADVISED HIM FREEPORT'S FUTURE RELATIONS WITH GOA WOULD BE BEST SERVED IF FREEPORT GAVE GOA FULL ADVANCE INFORMATION ON LOOMING PROBLEM AND AFFORDED GOA AT LEAST OPPORTUNITY TO SEEK SOLUTION. THESE MIGHT, ACCORDING  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CANBER 02410 180138Z

TO AHLL, INCLUDE GOA PRESSING AUSTRALIAN INDUSTRY DEVELOPMENT CORP. TO ASSIST METALS EXPLORATION OR TO TAKE DIRECT SHARE OF PROJECT. CONCEIVABLE AND LESS DESIRABLE ALTERNATIVE WOULD BE GOA ENCOURAGEMENT AND SUPPORT FOR TEMPORARY OR PERMANENT INCREASE IN FREEPORT'S SHARE OF PROJECT AS ALTERNATIVE TO COLLAPSE. FEASIBILITY OF LATTER WOULD DEPEND ON FREEPORT'S WILLINGNESS INCREASE ITS SHARE, OF WHICH THERE IS NO ASSURANCE. WHEN HALL DEPARTED CANBERRA

17 APRIL, HE SAID HE WOULD URGE HIS AUSTRALIAN PARTNER TO TAKE ENTIRE ISSUE UP WITH CARINS, POSSIBLY WITH A VIEW TO AIDC HELPING OUT AS OUTLINE ABOVE.

5. EMBASSY COMMENT: AS WE UNDERSTAND PROBLEM, GREENVALE PROJECT IS VICTIM OF SHARPLY INFLATED AUSTRALIAN COST STRUCTURE, AUST. \$ DEVALUATION, INCREASED FUEL OIL PRICE, WEAKNESS IN WORLD NICKEL PRICE, AND UNDER-ESTIMATE OF LENGTH OF TIME REQUIRED TO BRING PLANT TO FULL PRODUCTION. FREEPORT'S ESTIMATE OF ADDITIONAL CAPITAL REQUIRED TO CARRY THE PLANT UNTIL IT OPERATES IN BLACK IS ABSOLUTE MINIMUM AND MAY PROVE TO UNDERSTATE EVENTUAL NEEDS. METALS EXPLORATION CORP. IS RELATIVELY SMALL ENTERPRISE WITH LIMITED RESOURCES. MEANWHILE, LONG-TERM FINANCIAL PROSPECTS OF PROJECT ARE NOW THIN AT BEST AND UNDER THESE CIRCUMSTANCES ALL POTENTIAL LENDERS OR NEW AUSTRALIAN PARTNERS HAVE REJECTED METALS EXPLORATION'S APPROACH. IF PROJECT COLLAPSES, AS NOW APPEARS LIKELY, IT WILL BE IMPORTANT FOR FREEPORT'S ROLE CLEARLY TO HAVE BEEN THAT OF MAKING EVERY EFFORT TO AVERT SHUTDOWN AND REDUCE RISK IT AS US MULTINATIONAL WILL BE VIEWED AS HAVING CONTRIBUTED BY ACTION OR INACTION TO ITS FAILURE.

6. DEPARTMENT MAY WISH TO KEEP IN TOUCH WITH FREEPORT WITH REGARD TO FURTHER DEVELOPMENTS.  
GREEN

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL CRISIS, MINING, NICKEL  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 APR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MartinML  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CANBER02410  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750135-0949  
**From:** CANBERRA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750435/aaaabgap.tel  
**Line Count:** 141  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MartinML  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 JUL 2003 by WorrelSW>; APPROVED <12 NOV 2003 by MartinML>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL CRISIS AND POSSIBLE SHUTDOWN - FREEPORT GREENVALE NICKLE REFINERY PROJECT  
**TAGS:** EINV, EMIN, EALR, EGEN, AS, FREEPORT MINERALS, (HALL, JACK)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006